

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 MMO-01 TRSE-00 COME-00 LAB-04
AGRE-00 INT-05 DODE-00 CIAE-00 NSAE-00 XMB-02
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FM AMEMBASSY SANTO DOMINGO
TO SECSTATE WASHDC PRIORITY 1571

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E.O. 11652: N/A
TAGS: ECON, DR
SUBJECT: ECONOMIC ALERT REPORT

REF: STATE 180067

1. THE DOMINICAN REPUBLIC, WHILE PLAGUED WITH THE SAME ECONOMIC DEVELOPMENT PROBLEMS FACED BY OTHER LDC'S, CONTINUES TO HAVE ONE OF THE HIGHEST GROSS NATIONAL PRODUCT GROWTH RATES IN THE WORLD. THE DOMINICAN REPUBLIC IN THE NEXT TWELVE MONTHS WILL MOST LIKELY SEE A REAL GROWTH RATE OF FOUR PERCENT OR MORE. THE MAJOR FACTOR WHICH COULD INFLUENCE THIS GROWTH IS THE LONG RANGE POLITICAL STABILITY OF THE COUNTRY, AND IN THE NEAR FUTURE THIS DEPENDS ON PRESIDENT BALAGUER'S HEALTH AND HIS ABILITY TO STAY IN OFFICE. PRESIDENT BALAGUER, NOW IN THE FINAL YEAR OF HIS THIRD FOUR-YEAR ELECTED TERM IN OFFICE, HAS PROVIDED THE LONGEST ADMINISTRATION OF RELATIVELY ENLIGHTENED POLITICAL LEADERSHIP IN THE HISTORY OF THE COUNTRY.

2. DESPITE THE PERENNIAL NARROW MARGIN OF NET INTERNATIONAL RESERVES AND THE NEVER-ENDING BATTLE TO ATTAIN BALANCE-OF-PAYMENTS EQUILIBRIUM, THE DOMINICAN REPUBLIC, LIKE A CAT, ALWAYS MANAGES TO LAND ON ITS FEET BY THE TIME INTERNATIONAL ACCOUNTS ARE SETTLED AT

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THE END OF EACH EAR. THE DOMINICAN REPUBLIC, WHICH HISTORICALLY RUNS A CURRENT ACCOUNT DEFICIT ON TRADE, SERVICES, AND TRANSFERS, WHILE ATTAINING A NET INFLOW OF CAPITAL, SHOULD BE ABLE TO AVOID OR AT LEAST POSTPONE ANY BALANCE-OF-PAYMENTS CONSTRAINTS TO ECONOMIC GROWTH OVER THE SHORT TERM. THE \$60 MILLION LOAN FROM VENEZUELA SIGNED

IN NOVEMBER 1976 WILL HELP ALLEVIATE THE BURDENSOME IMPORT COST FOR

PETROLEUM. AS THE COUNTRY APPROACHES THE MAY 1978 PRESIDENTIAL ELECTIONS, A NORMAL HEDGING OF BETS BY DELAYING INVESTMENT AND INCREASING THE LIQUIDITY OF ASSETS SHOULD OCCUR, BUT NOT TO AN EXTENT GREAT ENOUGH TO CRIPPLE THE ECONOMY.

3. SINCE THE COUNTRY'S ECONOMY IS BASED ON SUGAR, CONTINUED LOW WORLD

SUGAR PRICES AND U.S. RESTRICTIONS ON SUGAR IMPORTS COULD ADVERSELY AFFECT THE DOMINICAN ECONOMY. THE MEDIUM TO LONG RANGE ECONOMIC GROWTH OF THE DR IS ALSO DEPENDENT ON NEW MINING VENTURES, NEW FOREIGN INVESTMENT, AND ON ITS MOST RECENT DISCOVERY, TOURISM.

4. LATEST ECONOMIC TRENDS REPORT (A-86 DTD 8-8-77) PROVIDES DETAILED ANALYSIS OF SHORT-TERM PROSPECTS.
HURWITCH

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